ColumbusNova

www.columbusnova.com

900 Third Avenue 19th Floor
New York, NY 10022
Tel: 212.418.9600
Fax: 212.308.6623

CONFIDENTIAL MEMORANDUM

Date: July 5, 2013

To: Yakov Tesis

From: Andy Intrater

Cc: Victor Vekselberg, Ehud Barak, Yaron Eitan, Jason Epstein, Ji Ham

Subject: **IDB Group Investment Opportunity Update**

- **Latest Situation Update**
  - With July 7th court date approaching, IDB Group's controlling shareholder (Nochi Dankner) has so far failed to source an equity partner to facilitate a successful restructure of the company
    - Eduardo Elsztain, the Argentinian investor who was considering a $75mm of investment, has been pushed out of the deal by Dankner (formally, he has withdrawn) and it appears that no other investor has stepped up to replace Elsztain
  - In order to demonstrate his funding capability, even without Mr. Elsztain, by July 7th, Mr. Dankner is expected to obtain a $80mm bridge loan in the next couple days to "buy time" for sourcing more permanent equity financing solution for a broad restructuring of IDB Group
  - While we have already communicated our decision to not proceed with the investment opportunity, given the latest development, IDB Group has contacted us again for our reconsideration with a revised deal/restructuring proposal as summarized below

- **Revised Restructuring Proposal from IDB Group**
  - New equity infusion of $200mm in IDB Group
    - 90+% stock ownership in IDB Holdings (parent holding company) for the investment
    - All of the proceeds will be dropped into IDB Development (sub holding company 100% owned by IDB Holdings) to strengthen liquidity and debt service reserve
    - A portion (~$20-30mm) to be available to Dankner as a loan so he could co-invest in the restructure. His loan would be secured by the stock that he would purchase
  - In exchange for the significant new capital contribution and strengthening of IDB Development liquidity, the existing creditors of IDB Holdings, with $577mm of current debt balance, might be willing to exchange 100% of their debt for (i) a payment of $51mm from existing cash on IDB Holdings balance sheet and (ii) approximately 49+% direct equity interest in IDB Development
    - The plan is for IDB Development shares to be registered, benefitting both the IDB Holdings creditors receiving stock as well as Columbus Nova

- **Notable Merits of the Revised Restructuring Proposal**
  - › Significant improvement in risk profile for the investment
    - IDB Holdings would be debt free with new equity investment only behind debt at IDB Development level
      - › Assuming all of the $200mm is dropped in, the pro forma IDB Development's net debt balance is estimated to be ~$1bn compared to IDB NAV of ~$2.7bn, as estimated by the independent valuation firm, Fahn Kanne Grant Thornton (CN would substantiate the valuation independently during due diligence)
    - All of the new invested capital would be going to strengthen IDB Development balance sheet vs. being used to pay out IDB Holdings creditors
  - › With 90+% ownership of IDB Holdings, CN will have control of IDB Holdings and effectively have 45+% ownership, and at least 50%+ control, of IDB Development, directly.
    - IDB Development shares being registered will allow exit/liquidity and future equity capital raise flexibility
    - Given the improved liquidity position expected post restructuring, IDB Development could be in a position to raise equity in the public markets in the medium-term as well as possibly refinance some of the existing debt with new longer-term maturity debt
    - Additionally, if desired, CN would be able to exit some of its investment with registered shares in the near- to medium-term
    - Perhaps it would be possible to get options to purchase the bondholder's stake in IDBD in the future at an attractive price.
  - › While the revised restructure proposal significantly improves the investment risk profile, the estimated returns remain very compelling
    - Based on our preliminary returns analysis, IRR and cash-on-cash return are estimated to be 35% and 3.3x, respectively, based on management forecast

Next likely steps are as follows:

1) If the court does not accept Dankner's proposal (whatever it is), the probability of an interesting transaction for us will most likely be gone. In such a situation, individual assets would become available in an auction scenario, where "full price" would be sought and, in which case, we would have no advantage and would not be interested to pursue/proceed.

2) If the court accepts Danker's proposal (in any case, this will be in the form of an extension of time in giving Dankner the ability to attract an equity investor), we would still be in a position to try to negotiate a deal where we would have control of IDBD, directly, and sit with debt in the structure which has been reduced by $577M.